
Appendix

TOKYO OHKA KOGYO CO., LTD. and Subsidiaries

Fiscal year ended March 31, 2017
(April 1, 2016 — March 31, 2017)

***Consolidated financial statements,
Notes to consolidated financial statements***

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Balance Sheets March 31, 2017 and 2016

<u>ASSETS</u>	<u>Millions of yen</u>		<u>Thousands of U.S. dollars (Note 1)</u>
	<u>2017</u>	<u>2016</u>	<u>2017</u>
CURRENT ASSETS:			
Cash and deposits (Notes 4 and 17)	¥ 33,907	¥ 37,516	\$ 302,746
Time deposits (Note 17)	15,756	13,360	140,679
Receivables:			
Trade notes and accounts (Note 17)	19,893	17,921	177,624
Securities (Notes 4, 5 and 17)	2,000	2,000	17,857
Other	581	303	5,190
Allowance for doubtful accounts	(242)	(37)	(2,167)
Inventories (Note 6)	13,613	12,999	121,546
Deferred tax assets (Note 14)	1,421	1,497	12,692
Prepaid expenses and other current assets	<u>1,716</u>	<u>1,553</u>	<u>15,329</u>
Total current assets	<u>88,647</u>	<u>87,114</u>	<u>791,499</u>
PROPERTY, PLANT AND EQUIPMENT (Note 7):			
Land	8,976	9,098	80,144
Buildings and structures	60,088	59,019	536,508
Machinery and equipment	57,828	55,226	516,327
Furniture and fixtures	19,844	18,190	177,185
Construction in progress	3,214	3,176	28,698
Total	<u>149,952</u>	<u>144,711</u>	<u>1,338,864</u>
Accumulated depreciation	<u>(100,286)</u>	<u>(96,798)</u>	<u>(895,417)</u>
Net property, plant and equipment	<u>49,666</u>	<u>47,913</u>	<u>443,447</u>
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 5 and 17)	13,389	9,524	119,547
Investments in and advanced to an unconsolidated subsidiary and associated companies	936	953	8,361
Long-term loans receivable	572	7	5,108
Net defined benefit asset (Note 9)	1,462	946	13,061
Long-term time deposits (Note 17)	18,000	18,000	160,714
Deferred tax assets (Note 14)	457	1,293	4,085
Other assets	<u>1,360</u>	<u>1,546</u>	<u>12,143</u>
Total investments and other assets	<u>36,178</u>	<u>32,272</u>	<u>323,021</u>
Total investments and other assets	<u>36,178</u>	<u>32,272</u>	<u>323,021</u>
TOTAL	<u>¥ 174,492</u>	<u>¥ 167,300</u>	<u>\$ 1,557,967</u>

See notes to consolidated financial statements.

<u>LIABILITIES AND EQUITY</u>	<u>Millions of yen</u>		<u>Thousands of</u>
	<u>2017</u>	<u>2016</u>	<u>U.S. dollars</u>
			<u>(Note 1)</u>
			<u>2017</u>
CURRENT LIABILITIES:			
Payables:			
Trade notes and accounts (Note 17)	¥ 9,607	¥ 7,787	\$ 85,777
Construction and other	4,107	3,717	36,674
Income taxes payable	1,390	1,310	12,416
Accrued expenses	3,418	3,550	30,521
Advances from customers	336	9	3,008
Deferred tax liabilities (Note 14)	21	18	191
Other current liabilities (Notes 8 and 17)	654	736	5,841
Total current liabilities	<u>19,536</u>	<u>17,130</u>	<u>174,430</u>
LONG-TERM LIABILITIES:			
Long-term loans payable (Notes 8 and 17)	—	137	—
Deferred tax liabilities (Note 14)	1,515	2,137	13,527
Net defined benefit liability (Note 9)	223	150	1,992
Other long-term liabilities	286	473	2,559
Total long-term liabilities	<u>2,024</u>	<u>2,899</u>	<u>18,078</u>
EQUITY (Notes 12 and 20):			
Common stock—authorized, 197,000,000 shares in 2017 authorized, 197,000,000 shares in 2016 issued, 45,100,000 shares in 2017 issued, 45,100,000 shares in 2016	14,640	14,640	130,718
Capital surplus	15,207	15,207	135,784
Retained earnings	113,708	110,359	1,015,255
Treasury stock—at cost, 1,496,738 shares in 2017 and 1,930,932 shares in 2016	(4,086)	(5,239)	(36,482)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	4,694	2,834	41,914
Foreign currency translation adjustments	3,533	4,823	31,550
Remeasurements of defined benefit plans	(139)	(253)	(1,244)
Total	147,559	142,371	1,317,496
Stock acquisition rights	221	309	1,974
Non-controlling interests	5,150	4,589	45,987
Total equity	<u>152,931</u>	<u>147,270</u>	<u>1,365,458</u>
TOTAL	<u>¥ 174,492</u>	<u>¥ 167,300</u>	<u>\$ 1,557,967</u>

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Income Years Ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
NET SALES	¥ 88,764	¥ 89,969	\$ 792,540
COST OF SALES (Notes 9, 13 and 15)	56,786	56,659	507,020
Gross profit	31,978	33,309	285,520
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 9, 13 and 15)	22,023	20,871	196,637
Operating income	9,954	12,438	88,883
OTHER INCOME (EXPENSES):			
Interest and dividend income	277	287	2,476
Foreign exchange loss —net	(445)	(642)	(3,981)
Gain (loss) on valuation of derivatives	(439)	270	(3,927)
Equity in earnings of an associate	126	219	1,129
Operation preparation expense	—	(339)	—
Gain on sales of investment securities	265	50	2,373
Loss on impairment of long-lived assets (Note 7)	(678)	(752)	(6,054)
Loss on disaster	(91)	—	(815)
Other—net	251	246	2,241
Other (expenses) income —net	(734)	(660)	(6,558)
INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTERESTS	9,220	11,777	82,325
INCOME TAXES (Note 14):			
Current	2,635	3,031	23,534
Prior years	0	18	2
Deferred	(454)	468	(4,062)
Total income taxes	2,181	3,518	19,473
NET INCOME BEFORE NON-CONTROLLING INTERESTS	7,039	8,259	62,851
NON-CONTROLLING INTERESTS IN NET INCOME	695	543	6,214
PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 6,343	¥ 7,716	\$ 56,637

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Income
Years Ended March 31, 2017 and 2016

	<u>Yen</u>		<u>U.S. dollars</u>
	<u>2017</u>	<u>2016</u>	<u>2017</u>
PER SHARE OF COMMON STOCK (Notes 13 and 20):			
Basic profit	¥ 146.18	¥ 177.30	\$ 1.31
Diluted profit	145.53	176.17	1.30
Cash dividends applicable to the year	64.00	64.00	0.57

See notes to consolidated financial statements.

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Comprehensive Income
Years Ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	<u>2017</u>	<u>2016</u>	<u>2017</u>
NET INCOME BEFORE NON-CONTROLLING INTERESTS	¥ 7,039	¥ 8,259	\$ 62,851
OTHER COMPREHENSIVE INCOME (Note 19):			
Unrealized (loss) gain on available-for-sale securities	1,860	(1,043)	16,609
Foreign currency translation adjustments	(1,369)	(1,127)	(12,223)
Remeasurements of defined benefit plans	114	(1,844)	1,022
Share of other comprehensive income in an associate	<u>(56)</u>	<u>(55)</u>	<u>(500)</u>
Total other comprehensive income	<u>549</u>	<u>(4,071)</u>	<u>4,908</u>
COMPREHENSIVE INCOME (Note 19)	<u>¥ 7,589</u>	<u>¥ 4,188</u>	<u>\$ 67,759</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 19):			
Owners of the parent	¥ 7,028	¥ 3,838	\$ 62,750
Non-controlling interests	560	349	5,008

See notes to consolidated financial statements.

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

**Consolidated Statements of Changes in Equity
Years Ended March 31, 2017 and 2016**

	Thousands		Millions of yen									
	Number of shares of common stock outstanding	Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss)			Total	Subscription rights to shares	Non- controlling interests	Total equity
						Unrealized (loss) gain on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans				
BALANCE, APRIL 1, 2015	44,873	¥ 14,640	¥ 15,207	¥ 109,500	¥ (3,183)	¥ 3,877	¥ 5,813	¥ 1,590	¥ 147,447	¥ 191	¥ 4,360	¥ 151,999
Profit attributable to owners of the parent	—	—	—	7,716	—	—	—	—	7,716	—	—	7,716
Cash dividends paid:												
Final for prior year, ¥32.0 per share	—	—	—	(1,350)	—	—	—	—	(1,350)	—	—	(1,350)
Interim for current year, ¥32.0 per share	—	—	—	(1,384)	—	—	—	—	(1,384)	—	—	(1,384)
Purchase of treasury stock	(1,750)	—	—	—	(6,269)	—	—	—	(6,269)	—	—	(6,269)
Disposal of treasury stock	45	—	—	(0)	89	—	—	—	88	—	—	88
Retirement of treasury stock	—	—	—	(4,123)	4,123	—	—	—	—	—	—	—
Net change in the year	—	—	—	—	—	(1,043)	(990)	(1,844)	(3,877)	118	229	(3,530)
BALANCE, MARCH 31, 2016	43,169	14,640	15,207	110,359	(5,239)	2,834	4,823	(253)	142,371	309	4,589	147,270
Profit attributable to owners of the parent	—	—	—	6,343	—	—	—	—	6,343	—	—	6,343
Cash dividends paid:												
Final for prior year, ¥32.0 per share	—	—	—	(1,384)	—	—	—	—	(1,384)	—	—	(1,384)
Interim for current year, ¥32.0 per share	—	—	—	(1,391)	—	—	—	—	(1,391)	—	—	(1,391)
Purchase of treasury stock	(0)	—	—	—	(2)	—	—	—	(2)	—	—	(2)
Disposal of treasury stock	435	—	—	(218)	1,156	—	—	—	937	—	—	937
Retirement of treasury stock	—	—	—	—	—	—	—	—	—	(174)	—	(174)
Net change in the year	—	—	—	—	—	1,860	(1,290)	114	684	86	560	1,332
BALANCE, MARCH 31, 2017	43,603	¥ 14,640	¥ 15,207	¥ 113,708	¥ (4,086)	¥ 4,694	¥ 3,533	¥ (139)	¥ 147,559	¥ 221	¥ 5,150	¥ 152,931

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

**Consolidated Statements of Changes in Equity
Years Ended March 31, 2017 and 2016**

Thousands of U.S. dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss)			Total	Subscription rights to shares	Non- controlling interests	Total equity
					Unrealized (loss) gain on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans				
BALANCE, MARCH 31, 2016	\$ 130,718	\$ 135,784	\$ 985,350	\$ (46,784)	\$ 25,304	\$ 43,069	\$ (2,267)	\$ 1,271,176	\$ 2,761	\$ 40,978	\$ 1,314,916
Profit attributable to owners of the parent	—	—	56,637	—	—	—	—	56,637	—	—	56,637
Cash dividends paid:											
Final for prior year, \$0.28 per share	—	—	(12,358)	—	—	—	—	(12,358)	—	—	(12,358)
Interim for current year, \$0.28 per share	—	—	(12,421)	—	—	—	—	(12,421)	—	—	(12,421)
Purchase of treasury stock	—	—	—	(24)	—	—	—	(24)	—	—	(24)
Disposal of treasury stock	—	—	(1,952)	10,326	—	—	—	8,373	—	—	8,373
Retirement of treasury stock	—	—	—	—	—	—	—	—	(1,560)	—	(1,560)
Net change in the year	—	—	—	—	16,609	(11,518)	1,022	6,113	773	5,008	11,895
BALANCE, MARCH 31, 2017	<u>\$ 130,718</u>	<u>\$ 135,784</u>	<u>\$ 1,015,255</u>	<u>\$ (36,482)</u>	<u>\$ 41,914</u>	<u>\$ 31,550</u>	<u>\$ (1,244)</u>	<u>\$ 1,317,496</u>	<u>\$ 1,974</u>	<u>\$ 45,987</u>	<u>\$ 1,365,458</u>

See notes to consolidated financial statements.

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows Years Ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
OPERATING ACTIVITIES:			
Income before income taxes and non-controlling interests	¥ 9,220	¥ 11,777	\$ 82,325
Adjustments for:			
Income taxes paid	(2,567)	(4,157)	(22,921)
Depreciation and amortization	6,118	5,631	54,630
Provision for doubtful accounts	180	(18)	1,608
Foreign exchange loss —net	576	934	5,148
Equity in earnings of an associate	(126)	(219)	(1,129)
Gain on sales of investment securities	(265)	(50)	(2,373)
Loss on impairment of long-lived assets	678	752	6,054
Loss (gain) on valuation of derivatives	439	(270)	3,927
Increase in net defined benefit asset	(248)	(686)	(2,222)
Increase in net defined benefit liability	(31)	16	(281)
(Increase) decrease in trade notes and accounts receivable	(2,124)	1,200	(18,971)
Increase in inventories	(915)	(1,755)	(8,178)
Increase (decrease) in trade notes and accounts payable	1,836	(1,522)	16,395
Increase (decrease) in advances from customers	327	(5)	2,924
Increase in consumption taxes refund receivable	(246)	(86)	(2,203)
Other—net	(373)	361	(3,336)
Net cash provided by operating activities	<u>12,476</u>	<u>11,902</u>	<u>111,398</u>
INVESTING ACTIVITIES:			
Deposit for time deposits—net	(445)	(12)	(3,974)
Purchases of property, plant and equipment	(9,008)	(5,335)	(80,433)
Payments into long-term time deposits	(14,000)	(14,000)	(125,000)
Withdrawal of long-term time deposits	12,000	15,000	107,142
Purchases of investment securities	(1,499)	(345)	(13,391)
Proceeds from sales of investment securities	392	83	3,505
Collection of loans receivable	0	373	8
Payments of loans receivable	(565)	(2)	(5,052)
Other—net	(276)	(146)	(2,469)
Net cash used in investing activities	<u>(13,402)</u>	<u>(4,385)</u>	<u>(119,663)</u>
FINANCING ACTIVITIES:			
Repayments of short-term loans payable	—	(143)	—
Repayments of long-term loans payable	(374)	(122)	(3,345)
Dividends paid	(2,769)	(2,729)	(24,730)
Dividends paid for non-controlling interests	—	(120)	—
Disposal of treasury stock	823	152	7,350
Purchases of treasury stock	(2)	(6,304)	(24)
Other—net	0	(1)	(1)
Net cash used in financing activities	<u>(2,324)</u>	<u>(9,268)</u>	<u>(20,752)</u>

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	<u>2017</u>	<u>2016</u>	<u>2017</u>
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(358)	(298)	(3,201)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,608)	(2,049)	(32,217)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	39,516	41,565	352,821
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 4)	<u>¥ 35,907</u>	<u>¥ 39,516</u>	<u>\$ 320,604</u>

See notes to consolidated financial statements.

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements Years Ended March 31, 2017 and 2016

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain amounts reported in prior years have been reclassified to conform to the current year’s presentation.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which TOKYO OHKA KOGYO CO., LTD. (the “Company”) is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥112 to \$1, the approximate rate of exchange at March 31, 2017. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Amounts of less than one million yen have been rounded off. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Consolidation*— The consolidated financial statements include the accounts of the Company and its eight significant subsidiaries (together, the “Group”).

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investment in one associated company is accounted for by the equity method. Investments in the remaining one unconsolidated subsidiary and another associated company are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

- b. Cash Equivalents*— Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less that are readily convertible into cash and exposed to insignificant risk of changes in value.
- c. Allowance for Doubtful Accounts*— The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group’s past credit loss experience and an evaluation of potential losses in the receivables outstanding.
- d. Inventories*— Merchandise, work in process, raw materials and supplies are stated at the lower of cost, determined by the first-in, first-out method, or net selling value. Finished products are stated at the lower of cost, determined by the average method, or net selling value. Inventories of manufacturing equipment are

stated at the lower of cost, determined by the specific identification method, or net selling value, which are included in raw materials, work in process and finished products.

- e. **Investment Securities**— Investment securities are classified and accounted for, depending on management's intent, as follows: (i) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at cost and (ii) available-for-sale securities, other than (i), are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

- f. **Property, Plant and Equipment**— Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment, except for lease assets, of the Company and its consolidated domestic subsidiaries is computed by the straight-line method. The range of useful lives is principally from 10 to 50 years for buildings and structures, and from 3 to 8 years for machinery and equipment, and furniture and fixtures.

- g. **Long-Lived Assets**— The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

- h. **Other Assets**— Intangible assets are stated at cost less accumulated amortization, which is calculated by the straight-line method principally over 5 years.

- i. **Retirement Benefits**

Retirement benefits to employees (including officers)— The Company and its certain consolidated subsidiaries have funded defined benefit pension plans and lump-sum retirement payment plans.

The companies principally accounted for the retirement benefit obligations based on the projected benefit obligations and plan assets at each balance sheet date.

Prior service cost is amortized by the straight-line method over 10 years. Actuarial gains and losses are amortized by the straight-line method over 10 years from the next period in which they arise.

The Company and certain consolidated subsidiaries terminated their unfunded retirement allowance plan for officers on June 26, 2008. Accordingly, allowance is provided in the amount payable to the eligible officers as of the termination date of the plans for the payment upon their retirement.

Retirement benefits to directors and corporate auditors— Retirement benefits to directors and corporate auditors are provided to state the liability at the amount that would be required if all of them retired at the balance sheet date.

The Company and certain consolidated subsidiaries terminated their unfunded retirement allowance plans for directors and corporate auditors on June 26, 2008. Accordingly, allowance is provided in the amount payable to the eligible directors and corporate auditors as of the termination date of the plans for the payment upon their retirement.

- j. **Asset Retirement Obligations**— The Group recognizes assets retirement obligation for buildings and sub stations in the domestic offices in accordance with the relevant laws. The amount of the asset retirement obligations is calculated with the estimated usable years of 8 to 50 years from the acquisition and the discount rate ranging from 0.4% to 2.3%.

- k. Research and Development Costs*— Research and development costs are charged to income as incurred.
- l. Leases* — Leased assets under the finance lease arrangements where the ownership is not transferred to lessees at the end of lease terms are capitalized to recognize lease assets and lease obligations in the balance sheet, except for leases which existed at April 1, 2008 and do not transfer ownership of the leased property to the lessee which are accounted for as operating lease transactions.

All other leases are accounted for as operating leases.

- m. Bonuses to Directors and Corporate Auditors*— Bonuses to directors and corporate auditors are accrued at the year-end to which such bonuses are attributable.
- n. Income Taxes*— The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.
- o. Foreign Currency Transactions*— All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates as of the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that they are not hedged by forward exchange contracts.
- p. Foreign Currency Financial Statements*— The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate during the period. Differences arising from such translation were recorded in “Foreign currency translation adjustments” and “Non-controlling interests” in Equity.
- q. Derivative and Hedging Activities*— The Group uses derivative financial instruments to manage its exposures to the fluctuation in foreign currency exchange. Foreign currency forward contracts are utilized by the Group to hedge foreign exchange risk. The Group does not enter into derivatives for trading or speculative purposes.

Trade receivables and payables denominated in foreign currencies for which foreign currency forward contracts are used to hedge foreign exchange risk are translated at the contracted rate if the forward contracts qualify for hedge accounting.

- r. Per Share Information*— Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the period.

Diluted net income per share reflects the potential dilution that could occur if securities with dilutive effects were exercised. Diluted net income per share of common stock assumes full exercise of outstanding warrants at the beginning of the year.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends attributable to the respective years including dividends to be paid after the end of the year.

3. ADDITIONAL INFORMATION

Application of Implementation Guidance on Recoverability of Deferred Tax Assets
The Company has applied the “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No.26, March 28, 2016) from the current fiscal year.

4. CASH AND CASH EQUIVALENTS

The balances of cash and deposits reflected in the consolidated balance sheets at March 31, 2017 and 2016 are reconciled to the balances of cash and cash equivalents as presented in the consolidated statements of cash flows for the years then ended as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash and deposits	¥ 33,907	¥ 37,516	\$ 302,746
Securities	2,000	2,000	17,857
Cash and cash equivalents	<u>¥ 35,907</u>	<u>¥ 39,516</u>	<u>\$ 320,604</u>

5. INVESTMENT SECURITIES

Investment securities as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Current:			
Negotiable certificate of deposits	<u>¥ 2,000</u>	<u>¥ 2,000</u>	<u>\$ 17,857</u>
Total	<u>¥ 2,000</u>	<u>¥ 2,000</u>	<u>\$ 17,857</u>
Non-current:			
Marketable equity securities	<u>¥ 13,326</u>	<u>¥ 9,390</u>	<u>\$ 118,983</u>
Total	<u>¥ 13,326</u>	<u>¥ 9,390</u>	<u>\$ 118,983</u>

The costs and aggregate fair values of investment securities at March 31, 2017 and 2016 were as follows:

	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
<u>March 31, 2017</u>				
Securities classified as:				
Held to maturity	¥ 2,000	¥ —	¥ —	¥ 2,000
Available-for-sale	¥ 6,791	¥ 6,534	¥ —	¥ 13,326
<u>March 31, 2016</u>				
Securities classified as:				
Held to maturity	¥ 2,000	¥ —	¥ —	¥ 2,000
Available-for-sale	¥ 5,418	¥ 3,972	¥ —	¥ 9,390
<u>March 31, 2017</u>				
Securities classified as:				
Held to maturity	\$ 17,857	\$ —	\$ —	\$ 17,857
Available-for-sale	\$ 60,639	\$ 58,343	\$ —	\$ 118,983

The difference between the sum of the above fair values of the available-for-sale securities and cost of the held-to-maturity securities, and the amounts shown in the accompanying consolidated balance sheets consists of nonmarketable securities whose fair values are not readily determinable.

Available-for-sale securities sold during the year ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Amount sold	¥ 392	¥ 83	\$ 3,505
Total gains	265	50	2,373
Total losses	—	—	—

6. INVENTORIES

Inventories at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Merchandise and finished products	¥ 5,862	¥ 5,515	\$ 52,340
Work in process	3,299	3,041	29,457
Raw materials and supplies	4,451	4,442	39,748
Total	¥ 13,613	¥ 12,999	\$ 121,546

7. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2017 and 2016, and recognized impairment losses of ¥678 million (\$6,054 thousand) and ¥752 million, respectively for the following assets. The carrying amount of those assets was written down to the recoverable amount.

For the year ended March 31, 2017

Use	Type of assets	Location (Prefecture/Country)	Amount	
			Millions of yen	Thousands of U.S. dollars
Business assets for Equipment business	Machinery and equipment, Furniture and fixtures, Construction in progress	Kanagawa	¥ 607	\$ 5,428
Idle assets	Construction in progress	Fukushima	23	213
Idle assets	Building and structures	Kumamoto	0	3
Manufacturing facilities	Machinery and equipment, Furniture and fixtures	U.S.A.	45	409
Total			¥ 678	\$ 6,054

For the year ended March 31, 2016

Use	Type of assets	Location (Prefecture/Country)	Amount
			Millions of yen
Business assets for Equipment business	Machinery and equipment, Furniture and fixtures, intangible assets	Kanagawa	¥ 699
Idle assets	Buildings and structures	Fukushima	48
Manufacturing facilities	Machinery and equipment	U.S.A.	4
Total			¥ 752

For the purpose of evaluating and measuring impairment, assets used for business are considered to constitute a group by each business unit. Idle properties are individually evaluated.

The recoverable amount of land and buildings was measured by their net selling price estimated based on an appraisal value. The recoverable amount of the other assets was measured at their value in use based on reminder price.

8. SHORT-TERM LOANS PAYABLE AND LONG-TERM LOANS PAYABLE

Short-term loans payable, included in “Other current liabilities” in the consolidated balance sheets, at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unsecured loan from a bank, with average interest rate of 1.8% and 1.4% for the years ended March 31, 2017 and 2016, respectively	¥ 135	¥ 397	\$ 1,208
Total	¥ 135	¥ 397	\$ 1,208

Long-term loans payable at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unsecured loan from a bank, with average interest rate of 1.8% for the years ended March 31, 2016	¥ —	¥ 137	\$ —
Total	¥ —	¥ 137	\$ —

9. RETIREMENT AND PENSION PLANS

The Company and its certain consolidated subsidiaries have funded defined benefit pension plans and lump-sum retirement payment plans.

The defined benefit corporate pension plans provide lump-sum payment or pension based on salary and service period.

The lump-sum retirement payment plans provide lump-sum payment as retirement benefit based on factors such as service period.

The details of the plans are as follows:

1. Defined benefit pension plans

(1) Retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Beginning balance	¥ 16,012	¥ 13,891	\$ 142,972
Service cost	653	547	5,838
Interest cost	88	193	787
Actuarial differences incurred during the year	(212)	1,825	(1,897)
Payment of retirement benefit	(426)	(445)	(3,805)
Ending balance	¥ 16,116	¥ 16,012	\$ 143,895

Note: Certain consolidated subsidiaries apply a simplified method to calculate retirement benefit obligations.

(2) Pension assets

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Beginning balance	¥ 11,599	¥ 11,575	\$ 103,565
Expected return on plan assets	405	463	3,624
Actuarial differences incurred during the year	(147)	(709)	(1,312)
Contributions from employer	666	652	5,947
Payment of retirement benefit	(364)	(382)	(3,254)
Ending balance	¥ 12,160	¥ 11,599	\$ 108,571

(3) Employee retirement benefit trust

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Beginning balance	¥ 5,209	¥ 5,145	\$ 46,513
Expected return on plan assets	26	25	232
Actuarial differences incurred during the year	(39)	37	(353)
Ending balance	¥ 5,195	¥ 5,209	\$ 46,392

(4) Reconciliation between ending balance of retirement benefit obligations and pension assets and net defined benefit liability and net defined benefit asset recorded on the consolidated balance sheet

	Millions of yen		Thousands of
	2017	2016	U.S. dollars
Retirement benefit obligations under the funded plan	¥ 15,975	¥ 15,900	\$ 142,640
Pension assets	(12,160)	(11,599)	(108,571)
Employee retirement benefit trust	(5,195)	(5,209)	(46,392)
	<u>(1,380)</u>	<u>(908)</u>	<u>(12,323)</u>
Retirement benefit obligations under the unfunded plan	140	112	1,254
Net liabilities or assets recorded on the consolidated balance sheet	(1,239)	(795)	(11,068)
Net defined benefit liabilities	223	150	1,992
Net defined benefit assets	<u>(1,462)</u>	<u>(946)</u>	<u>(13,061)</u>
Net liabilities or assets recorded on the consolidated balance sheet	¥ (1,239)	¥ (795)	\$ (11,068)

(5) Net periodic benefit cost and its components

	Millions of yen		Thousands of
	2017	2016	U.S. dollars
Service cost	¥ 653	¥ 547	\$ 5,838
Interest cost	88	193	787
Expected return on plan assets	(432)	(488)	(3,857)
Amortized actuarial differences	394	49	3,526
Amortized prior service cost	<u>(256)</u>	<u>(256)</u>	<u>(2,289)</u>
Net periodic benefit cost of defined benefit plan	¥ 448	¥ 46	\$ 4,005

Note: Net periodic benefit cost of consolidated subsidiaries applying the simplified method is recorded as "Service cost."

(6) Remeasurements of defined benefit plans (Other comprehensive income)

	Millions of yen		Thousands of
	2017	2016	U.S. dollars
Prior service cost	¥ (256)	¥ (256)	\$ (2,289)
Actuarial differences	420	(2,447)	3,758
Total	¥ 164	¥ (2,703)	\$ 1,468

(7) Remeasurements of defined benefit plans (Accumulated other comprehensive income)

	Millions of yen		Thousands of
	2017	2016	U.S. dollars
Unrecognized prior service cost	¥ 1,730	¥ 1,987	\$ 15,452
Unrecognized actuarial differences	<u>(1,930)</u>	<u>(2,351)</u>	<u>(17,240)</u>
Total	¥ (200)	¥ (364)	\$ (1,788)

(8) Plan assets and employee retirement benefit trust

(a) Components of plan assets

	2017	2016
Debt securities	47%	47%
Equity securities	32%	26%
Other	21%	27%
Total	100%	100%

(b) Components of employee retirement benefit trust

	2017	2016
Debt securities	99%	98%
Other	1%	2%
Total	100%	100%

(c) Long-term rate of return

Long-term rate of return on plan assets and employee retirement benefit trust is determined based on the current and expected allocation of plan assets and employee retirement benefit trust and current and expected long-term rate of return of various assets composing plan assets and employee retirement benefit trust.

(9) Basis for calculation of actuarial differences

	2017	2016
Discount rate	Mainly 0.53%	Mainly 0.53%
Long-term expected rate of return		
Defined benefit corporate pension plan	3.50%	4.00%
Employee retirement benefit trust	0.50%	0.50%

2. Defined contribution plans

Contributions to defined contribution pension plans by the Company and its consolidated subsidiaries

	Millions of yen		Thousands of U.S. dollars	
	2017	2016	2017	
	¥ 161	¥ 161	\$	1,445

3. Other

Assets of ¥410 million (\$3,669 thousand) will be transferred to defined contribution pension plan over four years as a result of partial transfer of funded defined benefit plan to defined contribution pension plan. The remaining balance to be transferred as of March 31, 2017 of ¥99 million (\$888 thousand) is included in other payables and long-term other payables (in "Other long-term liabilities" in Long-term liabilities).

10. EMPLOYEE STOCK OWNERSHIP PLAN TRUST

Pursuant to the resolution by the meeting of the Board of Directors held on January 11, 2012, the Company has introduced an employee incentive plan, "Employee Stock Ownership Plan (ESOP) Trust ("Plan")" for the purpose of enhancing benefit programs for the employees who will support future growth of the Company as well as increasing employees' incentive to work and awareness of management participation through granting incentive to raise stock price and improving corporate value for the medium and long-term perspective.

(1) Outline

Under the Plan, the Company will establish a trust ("Trust") for certain employees who participate in the "Tokyo Ohka Employee Stock Ownership Plan ("Company's ESOP")" and meet certain requirements as its beneficiaries. The Trust will acquire the total number of the Company's shares expected to be acquired by the Company's ESOP over five years in advance, and subsequently sell these shares to the Company's ESOP on a certain date of every month.

Acquisition and sales of the Company's shares are accounted for under the assumption that the Company and the Trust are the same entity.

Accordingly, assets, including the Company's shares owned by the Trust, and liabilities, and profits and loss of the Trust are included in the Company's consolidated balance sheet, consolidated statement of income and consolidated statement of changes in equity.

The plan expired on March 20, 2017, the expiration date of the Trust determined upon implementation of the plan.

(2) Accounting treatments for transactions to issue own shares to employees through trust

The Company continues to account for the Company's ESOP which was established prior to April 1, 2014 under the previous method, pursuant to Article 20 of "Practical Treatment for Transactions to Issue Own Shares to Employees through Trusts" (ASBJ Practical Issue Task Force No.30, March 26, 2015).

(3) The Company's shares held by ESOP trust

Carrying amount of the Company's shares held by Trust is ¥69 million (\$620 thousand) and ¥163 million as of March 31, 2017 and 2016, respectively, and is included in treasury stock. Also, the number of the Company's shares held by Trust as of March 31, 2017 and 2016 is 35 thousand shares and 84 thousand shares, respectively.

11. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations during the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	<u>2017</u>	<u>2016</u>	<u>2017</u>
Balance at beginning of year	¥ 88	¥ 87	\$ 792
Adjustments associated with passage of time	1	1	9
Others	<u>(1)</u>	<u>—</u>	<u>(16)</u>
Balance at end of year	<u>¥ 88</u>	<u>¥ 88</u>	<u>\$ 785</u>

12. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

The accompanying consolidated financial statements do not include any provision for the semiannual dividend of ¥32 (\$0.28) per share approved at the general shareholders' meeting held on June 28, 2017, aggregating ¥1,396 million (\$12,467 thousand) in respect of the year ended March 31, 2017.

13. STOCK OPTIONS

(1) Share-based compensation expenses which were accounted for as cost of sales and selling, general and administrative expenses

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cost of sales	¥ 15	¥ 24	\$ 136
Selling, general and administrative expenses	71	97	637

(2) Outline, number and changes of stock options

(a) Outline of stock options

Stock options outstanding as of March 31, 2017 were as follows:

Stock option	2016 Stock option	2015 Stock option	2014 Stock option
Category and number of eligible person	1 representative director of the Company 5 directors of the Company 6 executive officers of the Company	1 representative director of the Company 5 directors of the Company 8 executive officers of the Company	1 representative director of the Company 5 directors of the Company 7 executive officers of the Company
Number of options granted	Common stock: 29,300 shares	Common stock: 21,900 shares	Common stock: 31,500 shares
Date of Grant	August 4, 2016	August 4, 2015	August 5, 2014
Service period	Not specified	Not specified	Not specified
Exercise period	From August 5, 2016 to August 4, 2046	From August 5, 2015 to August 4, 2045	From August 6, 2014 to August 5, 2044

Stock option	2013 Stock option
Category and number of eligible person	2 representative directors of the Company 4 directors of the Company 7 executive officers of the Company 200 employees of the Company
Number of options granted	Common stock: 484,000 shares
Date of Grant	January 10, 2013
Service period	From January 10, 2013 to May 31, 2016
Exercise period	From June 1, 2016 to May 31, 2019

(b) Number and price of stock options

Movement in stock options during the fiscal year ended March 31, 2017 was as follows:

	Number of shares			
	2016	2015	2014	2013
Unvested stock options:				
As of March 31, 2016	—	—	—	474,500
Granted	29,300	—	—	—
Forfeited	—	—	—	—
Vested	29,300	—	—	474,500
Unvested options as of March 31, 2017	—	—	—	—
Vested stock options:				
As of March 31, 2016	—	21,900	29,500	—
Vested	29,300	—	—	474,500
Exercised	—	2,400	3,700	380,500
Forfeited	—	—	—	—
Unexercised options as of March 31, 2017	29,300	19,500	25,800	94,000
	Yen			
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1,759
Average share price at the time of exercise	¥ —	¥ 2,749	¥ 2,749	¥ 2,749
Fair value per share at grant date	¥ 2,757	¥ 3,192	¥ 2,292	¥ 417
	U.S. dollars			
Exercise price	\$ 0.01	\$ 0.01	\$ 0.01	\$ 15.71
Average share price at the time of exercise	\$ —	\$ 24.54	\$ 24.54	\$ 24.54
Fair value per share at grant date	\$ 24.62	\$ 28.50	\$ 20.46	\$ 3.72

(3) Method of estimating the fair value of stock options vested

The fair value price is estimated using the Black-Scholes option pricing model with the following assumptions:

	<u>2016</u>
Volatility of stock price	30.854 %
Estimated remaining outstanding period	5.8 years
Estimated dividend per share	¥ 64 (\$ 0.57)
Risk-free interest rate	(0.183) %

(4) Method of estimating number of stock options vested

Only the actual number of forfeited stock options is reflected because it is difficult to reasonably estimate the number of future forfeitures.

14. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.6% and 32.8% for the years ended March 31, 2017 and 2016, respectively. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities at March 31, 2017 and 2016, are as follows:

	<u>Millions of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2017</u>	<u>2016</u>	<u>2017</u>
Current:			
Deferred tax assets:			
Accrued bonuses for employees	¥ 504	¥ 518	\$ 4,507
Unrealized gains on finished goods	468	569	4,179
Loss on valuation of inventories	172	95	1,541
Other	342	369	3,053
Less valuation allowance	<u>(5)</u>	<u>(5)</u>	<u>(47)</u>
Total	<u>1,482</u>	<u>1,548</u>	<u>13,233</u>
Deferred tax liabilities—other	<u>(82)</u>	<u>(69)</u>	<u>(733)</u>
Total	<u>(82)</u>	<u>(69)</u>	<u>(733)</u>
Net deferred tax assets (liabilities)	<u>¥ 1,400</u>	<u>¥ 1,479</u>	<u>\$ 12,500</u>
Non-current:			
Deferred tax assets:			
Net defined benefit liability and asset	1,366	1,371	12,205
Tax loss carryforwards	140	122	1,255
Loss on devaluation of investment securities	343	322	3,070
Subsidy income	—	39	—
Allowance for doubtful accounts	66	73	595
Loss on impairment of long-lived assets	702	596	6,270
Other	1,003	1,223	8,955
Less valuation allowance	<u>(798)</u>	<u>(729)</u>	<u>(7,125)</u>
Total	<u>2,825</u>	<u>3,020</u>	<u>25,228</u>
Deferred tax liabilities:			
Reserve for advanced depreciation	(243)	(257)	(2,170)
Unrealized gain on available-for-sale securities	(1,840)	(1,138)	(16,429)
Undistributed earnings of foreign subsidiaries	(1,032)	(1,435)	(9,217)
Accelerated depreciation	(264)	(270)	(2,361)
Other	<u>(503)</u>	<u>(762)</u>	<u>(4,492)</u>
Total	<u>(3,883)</u>	<u>(3,864)</u>	<u>(34,670)</u>
Net deferred tax assets (liabilities)	<u>¥(1,057)</u>	<u>¥ (844)</u>	<u>\$ (9,442)</u>

Note: Net deferred tax assets (liabilities) are included in the following accounts:

	<u>Millions of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2017</u>	<u>2016</u>	<u>2017</u>
Current assets: Deferred tax assets	¥ 1,421	¥ 1,497	\$ 12,692
Non-current assets: Deferred tax assets	457	1,293	4,085
Current liabilities: Deferred tax liabilities	(21)	(18)	(191)
Non-current liabilities: Deferred tax liabilities	¥(1,515)	¥(2,137)	\$(13,527)

Reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Normal effective statutory tax rate	30.6%	32.8%
Adjustments:		
Non-taxable dividend income	(3.5)	(4.0)
Different income tax rates applicable to income in certain foreign countries	2.5	(0.2)
Dividends from consolidated foreign subsidiaries eliminated for consolidation purposes	3.5	4.1
Tax credit for research and development costs	(6.1)	(5.2)
Effect of tax reform promulgated on March 31, 2016	—	1.1
Other—net	<u>(3.3)</u>	<u>1.3</u>
Actual effective tax rate	<u>23.7%</u>	<u>29.9%</u>

At March 31, 2017, the Company and certain subsidiaries have tax loss carryforwards aggregating approximately ¥19 million (\$177 thousand) which are available to be offset against taxable income of the Company and such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

<u>Years ending March 31,</u>	<u>Millions of yen</u>	<u>Thousands of U.S. dollars</u>
2018	¥ 15	\$ 136
2019	4	40
2020	—	—
2021	—	—
2022	—	—
2023 and thereafter	<u>—</u>	<u>—</u>
Total	<u>¥ 19</u>	<u>\$ 177</u>

15. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were as follows:

	Millions of yen		Thousands of
	<u>2017</u>	<u>2016</u>	<u>U.S. dollars</u>
Selling, general and administrative expenses	¥ 8,085	¥ 6,900	\$ 72,194
Cost of sales	<u>121</u>	<u>114</u>	<u>1,085</u>
Total	<u>¥ 8,207</u>	<u>¥ 7,015</u>	<u>\$ 73,279</u>

16. LEASES

The Group leases certain buildings and structures, machinery, computer hardware, software and other assets. The minimum rental commitments under non-cancelable operating leases at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of
	<u>2017</u>	<u>2016</u>	<u>U.S. dollars</u>
Due within one year	¥ 89	¥ 299	\$ 797
Due after one year	<u>613</u>	<u>1,250</u>	<u>5,478</u>
Total	<u>¥ 702</u>	<u>¥ 1,550</u>	<u>\$ 6,275</u>

17. FINANCIAL INSTRUMENTS

(1) *Group Policy for Financial Instruments*

The Group invests cash surpluses in low risk financial assets. Such surpluses are generated from the Group's own operations. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

(2) *Nature and Extent of Risks Arising from Financial Instruments*

Trade receivables such as trade notes and accounts are exposed to customer credit risk. Also, trade receivables denominated in foreign currencies arising from exporting products are exposed to the risk of exchange rate fluctuations.

Securities are negotiable certificate of deposit which is expected to be settled with short term and investment securities, mainly equity instruments of customers and suppliers of the Group are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes and accounts, are less than one year. A part of those trade payables is denominated in foreign currencies and exposed to the risk of exchange rate fluctuations.

Derivatives mainly include foreign currency forward contracts and currency option contracts, which are used to manage exposure to market risks from changes in foreign exchange rates of receivables and payables. Please see Note 18 for more detail about derivatives.

(3) **Risk Management for Financial Instruments**

Credit risk management

The Group manages its credit risk from receivables in accordance with internal guidelines, which include monitoring of payment terms and balances of major customers by the credit administration department to identify the default risk of customers in the early stages. With respect to held-to-maturity securities, the Group manages its exposure to credit risk by limiting its holdings to high credit rating bonds. With respect to derivatives, the Group manages its exposure to credit risk by limiting its counterparties to major and creditworthy international financial institutions.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of March 31, 2017.

Market risk management (foreign exchange risk)

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk, which is managed monthly by currency, is hedged mainly by foreign currency forward contracts and currency option contracts. In addition, foreign currency forward contracts may be used at the maximum of expected amounts of foreign currency trade receivables and payables.

Derivative transactions are executed and managed in accordance with “Financial Risk Management Rules.”

Investment securities are managed by monitoring market values and financial position of issuers on a regular basis.

(4) **Fair Values of Financial Instruments**

Fair values of financial instruments are based on quoted price in active markets. When quoted price is not available, other values calculated using reasonable valuation techniques are used. Please see Note 18 for the detail of fair value for derivatives.

(a) *Fair value of financial instruments*

<u>March 31, 2017</u>	<u>Millions of yen</u>		
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Unrealized gain/loss</u>
Cash and deposits	¥ 33,907	¥ 33,907	¥ —
Time deposits	15,756	15,756	—
Receivables—Trade notes and accounts	19,893	19,893	—
Securities and Investment securities:			
Held to maturity	2,000	2,000	—
Available-for-sale securities	13,326	13,326	—
Long-term time deposits	<u>18,000</u>	<u>18,000</u>	<u>0</u>
Total	<u>¥ 102,883</u>	<u>¥ 102,884</u>	<u>¥ 0</u>
Payables—Trade notes and accounts	¥ 9,607	¥ 9,607	¥ —
Short-term loans payable	135	135	—
Long-term loans payable	<u>—</u>	<u>—</u>	<u>—</u>
Total	<u>¥ 9,742</u>	<u>¥ 9,742</u>	<u>¥ —</u>
Derivative transactions	<u>¥ (207)</u>	<u>¥ (207)</u>	<u>¥ —</u>

<u>March 31, 2016</u>	Millions of yen		
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Unrealized gain/loss</u>
Cash and deposits	¥ 37,516	¥ 37,516	¥ —
Time deposits	13,360	13,360	—
Receivables—Trade notes and accounts	17,921	17,921	—
Securities and Investment securities:			
Held to maturity	2,000	2,000	—
Available-for-sale securities	9,390	9,390	—
Long-term time deposits	<u>18,000</u>	<u>18,007</u>	<u>7</u>
Total	<u>¥ 98,188</u>	<u>¥ 98,195</u>	<u>¥ 7</u>
Payables—Trade notes and accounts	¥ 7,787	¥ 7,787	¥ —
Short-term loans payable	397	397	—
Long-term loans payable	<u>137</u>	<u>137</u>	<u>(0)</u>
Total	<u>¥ 8,322</u>	<u>¥ 8,322</u>	<u>¥ (0)</u>
Derivative transactions	<u>¥ (209)</u>	<u>¥ (209)</u>	<u>¥ —</u>

<u>March 31, 2017</u>	Thousands of U.S. dollars		
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Unrealized gain/loss</u>
Cash and deposits	\$ 302,746	\$ 302,746	\$ —
Time deposits	140,679	140,679	—
Receivables—Trade notes and accounts	177,624	177,624	—
Securities and Investment securities:			
Held to maturity	17,857	17,857	—
Available-for-sale securities	118,983	118,983	—
Long-term time deposits	<u>160,714</u>	<u>160,716</u>	<u>1</u>
Total	<u>\$ 918,605</u>	<u>\$ 918,607</u>	<u>\$ 1</u>
Payables—Trade notes and accounts	\$ 85,777	\$ 85,777	\$ —
Short-term loans payable	1,208	1,208	—
Long-term loans payable	<u>—</u>	<u>—</u>	<u>—</u>
Total	<u>\$ 86,986</u>	<u>\$ 86,986</u>	<u>\$ —</u>
Derivative transactions	<u>\$ (1,852)</u>	<u>\$ (1,852)</u>	<u>\$ —</u>

Cash and deposits, and Time Deposits

The carrying values of cash and deposits, and time deposits approximate fair value because of their short maturities.

Receivables—Trade Notes and Accounts

The carrying values of receivables—trade notes and accounts approximate fair value because of their short maturities.

Securities and Investment Securities

The carrying value of securities, approximate fair value because of their short maturities, the fair values of investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. The information of the fair value for the marketable and investment securities by classification is included in Note 5.

Long-Term Time Deposits

Long-term time deposits are measured at fair value using the discounted cash flow on deposits held at banks. The discounted rate used is the deposit interest rate assuming the same period.

Payables—Trade Notes and Accounts

The carrying values of payables—trade notes and accounts approximate fair value because of their short maturities.

Short-Term Loans Payable

The carrying values of short-term loans payables approximate fair value because of their short maturities.

Long-Term Loans payable

Long-term loans payable are measured at fair value using the discounted cash flow on loans. The discounted rate used is the loan interest rate assuming the same period.

Derivatives

The information of the fair value for derivatives is included in Note 18.

(b) *Financial instruments whose fair value cannot be reliably determined*

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Investments in equity instruments that do not have a quoted market price in an active market	¥999	¥1,087	\$8,925

(5) *Maturity Analysis for Financial Assets and Securities with Contractual Maturities*

	Millions of yen		
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years
<u>March 31, 2017</u>			
Cash and deposits	¥ 33,907	¥ —	¥ —
Time deposits	15,756	—	—
Receivables—Trade notes and accounts	19,859	34	—
Securities and Investment securities:			
Held to maturity			
Negotiable certificate of deposit	2,000	—	—
Long-term time deposits	—	18,000	—
Total	<u>¥ 71,523</u>	<u>¥ 18,034</u>	<u>¥ —</u>

	Millions of yen		
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years
<u>March 31, 2016</u>			
Cash and deposits	¥ 37,516	¥ —	¥ —
Time deposits	13,360	—	—
Receivables—Trade notes and accounts	17,921	—	—
Securities and Investment securities:			
Held to maturity			
Negotiable certificate of deposit	2,000	—	—
Long-term time deposits	—	18,000	—
Total	<u>¥ 70,797</u>	<u>¥ 18,000</u>	<u>¥ —</u>

	Thousands of U.S. dollars		
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years
<u>March 31, 2017</u>			
Cash and deposits	\$ 302,746	\$ —	\$ —
Time deposits	140,679	—	—
Receivables—Trade notes and accounts	177,316	308	—
Securities and Investment securities:			
Held to maturity			
Negotiable certificate of deposit	17,857	—	—
Long-term time deposits	—	160,714	—
Total	<u>\$ 638,600</u>	<u>\$ 161,022</u>	<u>\$ —</u>

18. DERIVATIVES

The Group enters into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies.

All derivative transactions are entered into to hedge foreign currency exposures incorporated within its business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amounts.

Derivative Transactions to Which Hedge Accounting is not Applied

	Millions of yen							
	2017				2016			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Foreign currency forward contracts:								
Sell:								
NT\$	¥ —	¥ —	¥ —	¥ —	¥ 455	¥ —	¥ 13	¥ 13
KRW	9,510	4,800	(207)	(207)	4,800	3,000	(222)	(222)
Currency option contracts:								
Written call option:								
US\$	33	—	(0)	(0)	—	—	—	—
Purchased put option:								
US\$	33	—	(0)	(0)	—	—	—	—
Total	¥ 9,578	¥ 4,800	¥ (207)	¥ (207)	¥ 5,255	¥ 3,000	¥ (209)	¥ (209)

	Thousands of U.S. dollars			
	2017			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Foreign currency forward contracts:				
Sell:				
NT\$	\$ —	\$ —	\$ —	\$ —
KRW	84,918	42,857	(1,849)	(1,849)
Currency option contracts:				
Written call option:				
US\$	300	—	(2)	(2)
Purchased put option:				
US\$	300	—	(0)	(0)
Total	\$ 85,519	\$ 42,857	\$ (1,852)	\$ (1,852)

* The fair value is based on prices provided by financial institutions.

Derivative Transactions to Which Hedge Accounting is Applied

		Millions of yen		
<u>March 31, 2017</u>	<u>Hedged Item</u>	<u>Contract amount</u>	<u>Contract amount due after one year</u>	<u>Fair value</u>
Foreign currency forward contracts:				
Selling U.S.\$	Receivables—Trade accounts	¥ 3,951	¥ —	*
Selling EUR	Receivables—Trade accounts	205	—	*
Selling NT\$	Receivables—Trade accounts	1,176	—	*

		Millions of yen		
<u>March 31, 2016</u>	<u>Hedged Item</u>	<u>Contract amount</u>	<u>Contract amount due after one year</u>	<u>Fair value</u>
Foreign currency forward contracts:				
Selling U.S.\$	Receivables—Trade accounts	¥ 3,946	¥ —	*
Selling EUR	Receivables—Trade accounts	205	—	*
Selling NT\$	Receivables—Trade accounts	983	—	*

		Thousands of U.S. dollars		
<u>March 31, 2017</u>	<u>Hedged Item</u>	<u>Contract amount</u>	<u>Contract amount due after one year</u>	<u>Fair value</u>
Foreign currency forward contracts:				
Selling U.S.\$	Receivables—Trade accounts	\$ 35,277	\$ —	*
Selling EUR	Receivables—Trade accounts	1,837	—	*
Selling NT\$	Receivables—Trade accounts	10,507	—	*

* The fair value of such foreign currency forward contracts is included in that of the hedged items (i.e., receivables—trade accounts).

19. COMPREHENSIVE INCOME

Reclassification adjustments and tax effects regarding other comprehensive income for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of
	2017	2016	U.S. dollars
			2017
Unrealized gain on available-for-sale securities:			
Recognized during the year	¥ 2,827	¥ (1,437)	\$ 25,247
Reclassification adjustments	(265)	(50)	(2,373)
Before tax effects adjustment	2,561	(1,487)	22,874
Tax effects	(701)	444	(6,265)
Unrealized gain on available-for-sale securities	1,860	(1,043)	16,609
Foreign currency translation adjustments:			
Recognized during the year	(1,369)	(1,127)	(12,223)
Reclassification adjustments	—	—	—
Foreign currency translation adjustments	(1,369)	(1,127)	(12,223)
Remeasurements of defined benefit plans:			
Recognized during the year	25	(2,497)	231
Reclassification adjustments	138	(206)	1,237
Before tax effects adjustment	164	(2,703)	1,468
Tax effects	(50)	859	(446)
Remeasurements of defined benefit plans	114	(1,844)	1,022
Share of other comprehensive income in companies accounted for by the equity method:			
Recognized during the year	(56)	(55)	(500)
Total other comprehensive income	¥ 549	¥ (4,071)	\$ 4,908

20. NET INCOME PER SHARE

Basic net income per share (“EPS”) for the years ended March 31, 2017 and 2016 is as follows:

	Yen		U.S. dollars
	<u>2017</u>	<u>2016</u>	<u>2017</u>
Basic EPS	¥ 146.18	¥ 177.30	\$ 1.31
Diluted EPS	145.53	176.17	1.30

Basis for the calculation of basic and diluted net income per share is as follows:

	Millions of yen		Thousands of U.S. dollars
	<u>2017</u>	<u>2016</u>	<u>2017</u>
Profit attributable to owners of the parent	¥ 6,343	¥ 7,716	\$ 56,637

	Thousands of shares	
	<u>2017</u>	<u>2016</u>
Earnings per share:		
Weighted-average number of shares*	43,394	43,523

Diluted earnings per share:

Increase in number of common stock	192	276
(Of those, new share subscription rights)	(192)	(276)

* Weighted-average shares for the years ended March 31, 2017 and 2016 excluded the Company’s shares held by the Employee Stock Ownership Plan Trust.

21. SEGMENT INFORMATION

For the Years Ended March 31, 2017 and 2016

(1) Description of reportable segments

The Group’s reportable segments are those for which separate financial information is available and regular evaluation by the Company’s management is being performed in order to decide resources allocation within the Group and to evaluate performance. Therefore, the Group consists of the Material Business and Equipment Business. The Material Business consists of photoresists and related materials and specialty chemicals. The Equipment Business consists of semiconductor manufacturing equipment and LCD manufacturing equipment.

(2) Methods of measurement for the amounts of sales, profit (loss), assets and other items for each reportable segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, “Summary of Significant Accounting Policies.”

(3) Information about sales, profit (loss), assets and other items is as follows:

	Millions of yen				
	2017				
	Reportable segment			Reconciliations	Consolidated
Material business	Equipment business	Total			
Sales:					
Sales to customers	¥ 86,558	¥ 2,205	¥ 88,764	¥ —	¥ 88,764
Intersegment sales or transfers	<u>0</u>	<u>46</u>	<u>46</u>	<u>(46)</u>	<u>—</u>
Total sales	<u>¥ 86,558</u>	<u>¥ 2,252</u>	<u>¥ 88,811</u>	<u>¥ (46)</u>	<u>¥ 88,764</u>
Segment income (loss)	¥ 14,470	¥ (750)	¥ 13,719	¥ (3,764)	¥ 9,954
Segment assets	97,542	3,296	100,838	73,654	174,492
Other:					
Depreciation	5,831	45	5,877	240	6,118
Increase in property, plant and equipment and intangible assets	8,741	641	9,382	212	9,595
Note: Reconciliations to					

—Segment income (loss) amounting to ¥(3,764) million (\$33,609 thousand) includes common costs of ¥(3,764) million (\$33,609 thousand), which are not allocated to reportable segments.

—Segment assets amounting to ¥73,654 million (\$657,627 thousand) include working capital (the Company's cash, deposits, and long-term time deposits) and investment securities of ¥65,649 million (\$586,152 thousand), which are not allocated to reportable segments.

— Increase in property, plant and equipment and intangible assets of ¥212 million (\$1,898 thousand) is related to common assets.

	Millions of yen				
	2016				
	Reportable segment			Reconciliations	Consolidated
Material business	Equipment business	Total			
Sales:					
Sales to customers	¥ 87,280	¥ 2,689	¥ 89,969	¥ —	¥ 89,969
Intersegment sales or transfers	—	59	59	(59)	—
Total sales	<u>¥ 87,280</u>	<u>¥ 2,748</u>	<u>¥ 90,028</u>	<u>¥ (59)</u>	<u>¥ 89,969</u>
Segment income (loss)	¥ 16,203	¥ (423)	¥ 15,780	¥ (3,342)	¥ 12,438
Segment assets	90,734	3,738	94,472	72,827	167,300
Other:					
Depreciation	5,220	169	5,389	241	5,631
Increase in property, plant and equipment and intangible assets	5,652	235	5,888	242	6,130
Note: Reconciliations to					

—Segment income (loss) amounting to ¥(3,342) million includes common costs of ¥(3,342) million, which are not allocated to reportable segments.

—Segment assets amounting to ¥72,827 million include working capital (the Company's cash, deposits, and long-term time deposits) and investment securities of ¥65,649 million, which are not allocated to reportable segments.

— Increase in property, plant and equipment and intangible assets of ¥242 million is related to common assets.

	Thousands of U.S. dollars				
	2017				
	Reportable segment			Reconciliations	Consolidated
Material business	Equipment business	Total			
Sales:					
Sales to customers	\$ 772,847	\$ 19,693	\$ 792,540	\$ —	\$ 792,540
Intersegment sales or transfers	0	414	414	(414)	—
Total sales	<u>\$ 772,848</u>	<u>\$ 20,107</u>	<u>\$ 792,955</u>	<u>\$ (414)</u>	<u>\$ 792,540</u>
Segment income (loss)	\$ 129,196	\$ (6,704)	\$ 122,492	\$ (33,609)	\$ 88,883
Segment assets	870,910	29,429	900,340	657,627	1,557,967
Other:					
Depreciation	52,068	410	52,478	2,151	54,630
Increase in property, plant and equipment and intangible assets	78,046	5,727	83,774	1,898	85,672

Related Information

For the Years Ended March 31, 2017 and 2016

(1) *Information about geographical areas*

(a) Sales

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Japan	¥ 22,933	¥ 20,712	\$ 204,764
Taiwan	34,331	32,509	306,531
Korea	9,830	11,513	87,773
U.S.A.	9,664	11,945	86,291
Other areas	12,004	13,288	107,179
Total	<u>¥ 88,764</u>	<u>¥ 89,969</u>	<u>\$ 792,540</u>

Note: Sales are classified in countries or regions based on location of customers.

(b) Property, Plant and Equipment

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Japan	¥ 27,685	¥ 24,271	\$ 247,189
Taiwan	7,111	5,267	63,499
Korea	11,997	15,277	107,118
U.S.A.	2,770	2,972	24,732
Other areas	101	124	907
Total	<u>¥ 49,666</u>	<u>¥ 47,913</u>	<u>\$ 443,447</u>

(2) *Information about major customers*

For the Years Ended March 31, 2017 and 2016

Name of customers	Relevant segment	Sales amount		
		Millions of yen		Thousands of U.S. dollars
		2017	2016	2017
Taiwan Semiconductor Manufacturing Company, Ltd.	Material Business	¥ 18,109	¥ 17,762	\$ 161,690

Related party transactions

For the Years Ended March 31, 2017

(1) *Directors and corporate auditors and principal shareholders*

Type	Name	Ratio of voting rights held (%)	Relationship	Transaction	Millions of yen			Thousands of U.S.dollars
					Transaction amount (Thousands of shares)	Account	Balance	Transaction amount (Thousands of shares)
Director	Ikuo Akutsu	(Held) Direct 0.03	Representative Director President of CEO	Exercise of stock options (Note)	¥21 (12)	—	—	\$188 (12)
Director	Harutoshi Sato	(Held) Direct 0.02	Director	Exercise of stock options	11 (6)	—	—	\$102 (6)

Note: Stock acquisition rights were approved at the board of directors held on December 3, 2012 based on the resolution at the ordinary general meeting of shareholders held on June 27 2012.

CAUTIONARY STATEMENT

The Company's financial statements in English have not been audited by independent auditors. However, the original Japanese financial statements on which they are based have been audited by independent auditors.